Seligman, Edwin Robert Anderson

The War Revenue Act

New York

1918

97-84046-14
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

# BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD

Seligman, Edwin Robert Anderson, 1861-1939.
Box 79 The war revenue act, by Edwin R. A. Seligman ...
308 New York, 1918.
2 37 p. 23 cm.

Box 79. Reprinted from Political science quarterly, v. 33, no. 1, March 1918.



TECHNICAL MICROFORM DATA

FILM SIZE: 35mm REDUCTION RATIO: 10:1 IMAGE PLACEMENT: IA IIA IB IIB

DATE FILMED: 3-24-97 INITIALS: MS

TRACKING # : MSH 21816

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

# THE WAR REVENUE ACT

BY

EDWIN R. A. SELIGMAN

COLUMBIA UNIVERSITY

REPRINTED FROM POLITICAL SCIENCE QUARTERLY
Vol. XXXIII, No. 1, March, 1918

NEW YORK
March, 1918

# THE WAR REVENUE ACT

BY

EDWIN R. A. SELIGMAN

COLUMBIA UNIVERSITY

REPRINTED FROM POLITICAL SCIENCE QUARTERLY
VOL. XXXIII, NO. 1, MARCH, 1918

NEW YORK
MARCH, 1918

# THE WAR REVENUE ACT

THE war revenue act of October 3, 1917, possesses the distinction of being the most gigantic fiscal enactment in history. Never before has an endeavor been made to provide in a single measure for so colossal a revenue as is sought to be obtained by this law. In the following pages we shall attempt, after a short historical introduction, to give a summary of its principal features, an estimate of the tax burden involved, a statement of its probable distribution, and an interpretation of the novel and significant contributions made by the measure to public finance.

## I

### *Historical Retrospect*

The history of our war finance begins with the emergency-revenue law enacted shortly after the outbreak of the conflict and two and one-half years before our entrance into the war.

This history, however, can not be understood unless we remember the change in the theory of federal revenue that had occurred in the preceding five years. From the early seventies of the last century, when the country had settled down after the fiscal upheaval occasioned by the Civil War, the federal income had been derived from customs and internal revenue taxes levied almost exclusively on liquors and tobacco. In 1909 this complete reliance upon indirect taxes was altered by a tax on corporations, called an excise tax in order to bring it safely within the constitutional inhibition. After the passage of the Sixteenth Amendment, however, the corporation tax was merged in 1913 into the general income tax, which now marked the

definitive adoption of direct taxation as a regular part of the national revenue. Recent events have only served to confirm the wisdom of those who argued that, from the point of view of possible warfare alone, it would be the height of folly to deprive the government of a great nation of such a potent engine. Without the Sixteenth Amendment we should have been deprived not only of the present income tax but, in all probability, of the present excess-profits tax as well.

The Act of October 22, 1914, entitled "An act to increase the internal revenue and for other purposes," was popularly known as the emergency-revenue law and was so termed in various official documents. The financial disorders which followed the outbreak of the war so seriously affected current revenues that an addition was imperatively needed. This was provided by four series of taxes: first, the increase of the tax on beer from $1 to $1.50 a gallon, together with slightly higher taxes on certain wines; second, the so-called special taxes on tobacco dealers and manufacturers, on bankers, brokers, commission merchants, and proprietors of public amusements; third, schedule A, comprising a variety of stamp taxes on transactions, as well as a tax on telegraph and telephone messages, express and freight rates, and Pullman fares; and finally, schedule B, consisting of stamp taxes on toilet articles and chewing gum.[1]

The additional revenue thus secured was about $52,000,000. That it was needed is obvious from the fact that the ordinary internal revenue, as appears from the table on the next page, fell from 308 millions in 1914 to some 283 millions in 1915. Moreover, owing to the increased yield of the income tax, as a result of the business recovery, the total internal revenue for 1915 was over 410 millions as compared with 380 millions in 1914.

The operation of the law was limited to the period ending December 31, 1915. It was so apparent, however, that the emergency was growing more serious, that Congress by joint resolution of December 17, 1915, extended the operation of the law to the close of 1916. The prosperity of the country consequent upon the filling of the Allies' orders for munitions and

[1] For details *cf.* tables I, III and IV, *infra*, pp. 33, 35, 36.



food resulted in an addition of almost a hundred millions to the internal revenue during 1916, the emergency revenue now yielding over 84 millions and the income tax providing almost 125 as against the 80 millions of the preceding year.[1]

The political sky became so lowering during the spring and summer of 1916 that even this increase seemed entirely inadequate. The consequence was the enactment, after considerable discussion, of the law of September 8, 1916. This act, entitled, like its predecessor, "An act to increase the revenue and for other purposes," repealed all the taxes imposed by the emergency-revenue law except the so-called special taxes which were to continue until the end of the year. The chief feature of the new law was the increase of the income tax, the normal rate being raised to 2 per cent and the scale of progression being made sharper.[2] Next in importance were the changes in the

[1] INTERNAL REVENUE AND CUSTOMS RECEIPTS (IN MILLIONS OF DOLLARS)

| | *1914* | *1915* | *1916* | *1917* |
|---|---|---|---|---|
| Spirits | $159.1 | 144.6 | 158.7 | 192.1 |
| Tobacco | 79.8 | 79.9 | 88. | 103.2 |
| Fermented Liquors | 67.1 | 79.3 | 88.8 | 91.9 |
| Oleomargarine | 1.3 | 1.7 | 1.5 | 1.9 |
| Miscellaneous | .9 | 1.5 | 1.7 | 2. |
| Special Taxes | ... | 4.9 | 6.9 | 15.7 |
| Schedule A | ... | 20.5 | 38.1 | 8.3 |
| Schedule B | ... | 2.9 | 4.1 | .7 |
| Estate | ... | ... | ... | 6. |
| Munitions | ... | ... | ... | 27.7 |
| Excess Profits | ... | ... | ... | .037 |
| Miscellaneous | 1.1 | 1.5 | 1.7 | 2.1 |
| Total of above items | 308.6 | 335.5 | 387.8 | 449.7 |
| Ordinary | 308.2 | 283.4 | 303.5 | 354.4 |
| Emergency | ... | 52. | 84.4 | 95.3 |
| Income | 71.4 | 80.2 | 124.9 | 359.7 |
| Corporation | 43.1 | 39.1 | 56.9 | 179.6 |
| Individual | 28.3 | 41. | 67.9 | 180.1 |
| Total Internal Revenue | 380. | 415.7 | 512.7 | 809.4 |
| Customs Duties | 292.3 | 209.8 | 213.1 | 225.9 |
| Total Tax Revenue | 672.3 | 625.5 | 725.8 | 1,035.3 |
| Total Ordinary Receipts | 743.7 | 697.9 | 779.7 | 1,118.2 |
| Total Receipts (including Postal Revenue) | 1,002.6 | 985.2 | 1,091.7 | 1,447.9 |

[2] See appendix, table V, *infra*, p. 37.

taxes on tobacco and liquors, the rates on tobacco and beer being made about the same as in the emergency-revenue law of 1914, while the rates on spirituous liquor were somewhat increased. Two new taxes were added, the estate tax, graduated from 1 per cent to 10 per cent, and the munitions manufacturers' tax, the duration of which was limited to one year after the close of the war. This was a so-called excise tax, over and above the income tax, of 12½ per cent upon the net profits of manufacturers of gunpowder, cartridges, projectiles, firearms and motorboats, including submarines. Finally came a series of so-called special taxes, limited, with one exception, to manufacturers of tobacco, brokers, and proprietors of public amusements. The exception consisted in an excise tax on corporations, joint stock and insurance companies, amounting to 50 cents for each $1000 of the value of the capital stock over $99,000. The act also provided for changes in the import duties on dyestuffs and printing paper, and brought into existence the new tariff commission.

The act of 1916 was expected to yield an additional revenue of several hundred millions. During the early months of 1917, however, the political situation became so acute that Congress decided to make provision for the imminent conflict by creating the so-called special-preparedness fund, to be used only for military and naval preparations. This was accomplished by the Act of March 3, 1917, entitled, "An act to provide increased revenue to defray the expenses of the increased appropriations for the army and navy and the extensions of fortifications and for other purposes." The fund was to be alimented from two sources: the excess-profits tax and a considerable addition to the inheritance tax. The excess-profits tax consisted of 8 per cent of the amount by which the net income of every corporation and partnership exceeded the sum of (a) $5000 and (b) 8 per cent of the actual capital invested. The law did not apply to corporations exempted from the income tax or to partnerships carrying on similar businesses or deriving an income from agriculture or personal service. The estate tax was so altered that the new rates were graduated 1½ per cent to 15 per cent.[1]

[1] See table, *infra*, p. 8.



The two acts resulted in a substantial increase of the revenue in 1917. Only an insignificant amount, however, was obtained from the excess-profits tax[1] and only about six millions from the estate tax. But the munitions manufacturers' tax yielded about 28 millions, and the ordinary internal revenue about 60 millions additional, while the income tax rose from 125 to 360 millions, so that the total internal revenue for 1917 was over 809 millions or, roughly speaking, somewhat more than double the pre-war yield under ordinary business conditions.

Immediately after the declaration of war in April 1917, preparations were rushed, and vastly augmented appropriations were made. That a prodigious increase in the revenue would be needed was apparent, but exactly how much would be necessary, no one knew. The Treasury Department refrained from making any exact estimates and when the present writer stated[2] that the expenditures would amount to at least ten billions, his assertions were greeted with a smile of incredulity. It soon appeared, however, that this calculation was well within the truth, and preparations were made by Congress to finance the war on that assumption. After the revenue bill had come to the Senate Committee on Finance, a revised list of probable appropriations for 1918 was submitted, bringing the total to nineteen or twenty billions. This unexpected change called for a complete recasting of the bill, and led, after a protracted discussion in the conference committee, to the passage of the Act of October 3, 1917.

## II

### *Summary of the War Revenue Act*

The October act is entitled "An act to defray war expenses and for other purposes." All the new taxes are to be superimposed upon the existing system, except that the old excess-profits tax is repealed and the munitions manufacturers' tax is lowered to 10 per cent, and is to cease entirely after January 1, 1918.

[1] See table, *supra*, p 3.

[2] "How to Finance the War," Columbia War Papers, no. 7, p. 6.

The backbone of the law, arranged in thirteen titles, consists of the new income and excess-profits taxes, each of which will be discussed separately later on. The remainder of the law provides for a great variety of imposts.[1] The most important is Title III, the war tax on beverages, which includes an additional tax of $1.10 per gallon on distilled spirits produced, imported or in bond, and of $2.10 if withdrawn for beverage purposes. As the further production of such spirits was stopped by the Food Administration Act of August 10, which prohibited during the war the use of grain for distillation, the result is that all existing stocks are subject to the high tax of $3.20 a gallon. The law imposes a further tax of 15 cents a gallon on rectified spirits, while the rates on wines and cordials are doubled, and on grape brandy, trebled. More moderate taxes are imposed on soft drinks and mineral waters as well as on the syrups, extracts and gas used in their manufacture.[2]

Title IV, dealing with tobacco, imposes an additional tax varying per thousand, on cigars from 25 cents to $7 and on cigarettes from 80 cents to $1.20, and fixed on tobacco and snuff at 5 cents a pound. In the case of more than 100 pounds of tobacco or 1000 cigars or cigarettes, subject to the old tax but removed for sale before the thirty days when the new law goes into effect, the additional tax—known as the excess-quantity tax—is to be at half rates. A new tax, varying from ½ cent to 2 cents per package or tube, is imposed on cigarette paper.[3]

Title V, "the war tax on facilities furnished by public utilities and insurance," assesses freight rates 3 per cent; express 1 cent for each 20 cents of charge; passenger fares, 8 per cent; Pullman tickets, 10 per cent; pipe-line transmission, 5 per cent; telegraph, telephone, and radio messages (of 15 cents or more) 5 cents; marine, inland, fire and casualty insurance, 1 per cent on the premium; and life insurance $\frac{8}{10}$ of 1 per cent on the amount

[1] In the appendix, pp. 33-37, are printed a series of tables, not to be found in any of the official publications, showing the details of the old rates, the changes due to the various war acts, and the existing rates.

[2] For details, see appendix, table I, *infra*, p. 33.

[3] For details, see *ibid.*



of the policy. In the case of insurance the tax is to be paid by the issuer of the policy, in all other cases it is provided that the tax shall be paid by the person paying for the service.

Title VI, the "war excise taxes," charges automobiles, musical instruments, jewelry, sporting goods and games, chewing gum and cameras, 3 per cent; cosmetics, toilet articles and patent medicines, 2 per cent; moving-picture films, ¼ to ½ of 1 cent per foot; and motorboats and yachts from 50 cents to $2 per foot. In the case of the last item, the tax is imposed upon the user; in all the other cases upon the manufacturer, producer, or importer. No change is made in the old excises or "special taxes."[1]

Title VII is the war tax on admissions and dues. On admissions where the charge is over 5 cents (or in the case of outdoor parks, 10 cents) the tax is 1 cent for every 10 cents of charge. Children under twelve pay only 1 cent and the tax is remitted in the case of religious, educational, or charitable institutions or agricultural fairs not conducted for profit. On dues or membership fees over $12 of social, athletic, or sporting clubs, the tax is 10 per cent.

Title VII, "the war stamp taxes," includes a variety of imposts on bonds, conveyances, entries, proxies, and powers of attorney; on the issue and transfer of capital stock; on transactions on stock and produce exchanges; on promissory notes and time drafts; on playing cards, passenger tickets over $10, and parcel-post packages.[2]

Title IX imposes an additional "war estate tax" varying from ½ of 1 to 10 per cent. As will be seen from the table on the next page, this results in the inheritance tax now being graduated from 2 up to 25 per cent.

Finally, title XI adds 1 cent to the rate on postal cards and other first-class mail with the exception of drop letters, in which no change is made. In the case of second-class mail a distinction is introduced between the space devoted to reading matter and to advertisements. In the former the existing rate of 1 cent a pound is increased to 1¼ cents from July 1, 1918,

[1] For details see appendix, tables II and III, *infra*, pp. 34, 35.

[2] For details see appendix, table IV, *infra*, p. 36.

and to 1½ cents after July 1, 1919. In the case of the latter, the rates up to July 1, 1919, vary from 1½ cents in the first and second zones to 3¼ cents in the eighth zone; in the succeeding year they are to run from 1½ to 5½ cents respectively; in the following year from 1¾ to 7¾ cents, and after July 1, 1921, from 2 to 10 cents.

## III

### *The Tax Burden and its Distribution*

In considering this code of taxes—for it is nothing less than a code—the first questions that present themselves relate to the expected yield of the system, the relative proportion between loans and taxes, and the distribution of the burden.

According to official estimates the probable yield of the additional war revenue for 1918 will be two and a half billions.[1]

ESTATE TAX

| *Net estate* | *Sept. 8, 1916* | *Mar. 3, 1917* | *Act of October 3, 1917* | |
|---|---|---|---|---|
| | | | *Additional* | *Total rate* |
| Below $50,000 | 1 per cent | 1½ per cent | ½ per cent | 2 per cent |
| $50–150,000 | 2 " | 3 " | 1 " | 4 " |
| $150–250,000 | 3 " | 4½ " | 1½ " | 6 " |
| $250–450,000 | 4 " | 6 " | 2 " | 8 " |
| $450,000–$1,000,000 | 5 " | 7½ " | 2½ " | 10 " |
| $1–2 millions | 6 " | 9 " | 3 " | 12 " |
| $2–3 " | 7 " | 10½ " | 3½ " | 14 " |
| $3–4 " | 8 " | 12 " | 4 " | 16 " |
| $4–5 " | 9 " | 13½ " | 4½ " | 18 " |
| Over 5 millions | 10 " | 15 " | . . " | . . " |
| $5–8 millions | | | 5 " | 20 " |
| $8–10 " | | | 7 " | 22 " |
| Over 10 millions | | | 10 " | 25 " |

[1] The details are as follows:

| | |
|---|---|
| Income | $851,000,000 |
| Excess-Profits | 1,000,000,000 |
| Distilled Spirits | 140,000,000 |
| Fermented Liquors | 46,000,000 |
| Wines and Cordials | 7,000,000 |
| Soft Drinks and Syrups | 13,000,000 |
| Tobacco | 63,400,000 |
| Transportation | 157,300,000 |
| Telegraph, Telephone and Radio Messages | 7,000,000 |
| Insurance | 5,000,000 |
| Gross Sales | 58,650,000 |
| Admissions and Dues | 51,500,000 |
| Stamp Taxes | 29,000,000 |
| Estates | 5,000,000 |
| Virgin Islands Goods | 20,000 |
| First Class Mail | 70,000,000 |
| Second Class Mail | 6,000,000 |
| Total | $2,509,870,000 |



These estimates are in the nature of the case only approximate, and it is true that no one could have accurately forecasted the sudden change in business conditions which soon followed the passage of the law.[1] Even taking the estimate as fairly exact, however, the figures present no adequate picture of the actual tax burden imposed by the war. To do this, it would be necessary to add to the two and a half millions of the new tax the proceeds of existing taxes, so far as they exceed the normal pre-war figures. We have seen that the internal revenue receipts for 1917 were over 800 millions. It is not at all unlikely that the revenue from the same sources for 1918 will be around a billion. If to this we add approximately the quarter of a billion derived from customs, we should have a probable tax revenue of about 3¾ billions. Deducting the 600-650 millions which represent the average annual yield of the customs and internal revenue for the half dozen years before the outbreak of the European war, we should have as the additional war revenue for 1918 between 3 and 3¼ billions.[2] Until the year is completed, these figures are necessarily only approximate; but they serve to give some idea of the real tax burden due to the first year of the war, and to correct certain misapprehensions on that point.

[1] The estimate of the conference committee was based on a twelve-months period. As some of the taxes became effective on October 5, others on November 1, and still others on December 1, some of the estimates must be reduced. On the other hand, the later calculations of the secretary of the treasury (Report, p. 23) estimate considerably more from the excess-profits tax (1,226 instead of 1,000 millions) and the estate tax, the total yield of which is put at about 70 millions for 1918. The original estimates may therefore be considered as fairly accurate, unless the financial depression at the end of the calendar year may, as is not improbable, materially reduce the yield.

[2] The secretary of the treasury in his annual report gives the following estimates (in millions):

| | |
|---|---|
| Internal Revenue | $3,400 |
| Customs | 220 |
| Total Tax Revenue | 3,620 |
| Total Ordinary Receipts | 3,887 |
| Postal Revenues | 340 |
| Total Revenues (exclusive of loans and Panama Canal tolls) | 4,227 |

The next question is whether the war revenue act endeavors to raise too much or too little by taxation. We shall not attempt to discuss here the problem of loans *versus* taxes or to present the economic theory of public credit.[1] Suffice it to say that each method is unsatisfactory when pushed to an extreme. The chief disadvantage of loans is that if they are not based on a solid foundation of taxes, they lead to a progressive deterioration of public credit and thus in part defeat their own objects; while the chief disadvantage of excessive taxation is the tendency to disrupt or to repress enterprise to such an extent that the industrial foundations of the war itself will be weakened. What has been generally overlooked, however, is the slight difference, measured in percentages, between an undue and a proper utilization of public credit.

The great conflicts of the nineteenth century have been conducted almost exclusively on the theory of loans. The figures ordinarily found are fallacious because they fail to distinguish between total and war expenditures on the one hand and total and war taxation on the other. If, as is the only proper method, we attempt to ascertain what proportion of strictly war expenses are defrayed out of war taxes and what proportion out of war loans, we shall find that the rôle played by war taxes is very much less than has usually been estimated. In the history of the Civil War, for instance, it will be seen from the table[2] appended that if we compare total taxes with loans the proportion raised by taxes in the first full year of the war was under 9 per cent, and that it rose in the next year to only 12 per cent, and in the two succeeding years to only 16 per cent. If, however, war taxes are compared with war expenditures, as is proper, the showing is far worse. If we estimate the ordinary tax revenues and expenditures at about fifty millions (in 1860 they were each about fifty-three millions) it appears from the table[1] below that the proportion of war taxes to war expenditures was, in the first full year of the war, only one-fifth of 1 per cent and that even in the second year it reached only 8½ per cent. In other words, the first half of the war was conducted almost exclusively on the loan policy. The disastrous results are only too well known.

If we compare the fiscal program of Great Britain in the present war with that of the other belligerents, we shall find that the difference is much less than is commonly supposed. As appears from the table[2] below, the war taxes in the first year of the war (which represented six months of the fiscal year) amounted to a little over 7 per cent of the war expenditures. In the second year of the war the proportion rose to over 9 per cent and in the third year to 17½ per cent. The real contrast with the United States during the Civil War resides in the fact that Great Britain was, during the first three years of war, just about one year ahead of the United States. That one year's difference,

[1] This has been done elsewhere by me. Compare "Loans *versus* Taxes in War Finance," in Financing the War, Annals of the American Academy of Political and Social Science, vol. lxxv, January 1918, pp. 52–82.

[2] Taxes and Loans in the Civil War (In Millions of Dollars)

| | *Customs* | *Internal revenue* | *Direct tax* | *Total tax revenues* | *Loans* | *Total loans and taxes* | *Per cent obtained by taxes* |
|---|---|---|---|---|---|---|---|
| 1862 | 49.1 | . . | 1.8 | 50.9 | 529.7 | 571.6 | 8.9 |
| 1863 | 69.1 | 37.6 | 1.5 | 108.2 | 775.2 | 883.4 | 12.2 |
| 1864 | 102.3 | 109.7 | .5 | 212.5 | 1088.2 | 1300.7 | 16.3 |
| 1865 | 84.9 | 209.5 | 1.2 | 295.6 | 1474.5 | 1770.1 | 16.1 |

These figures differ from those of H. C. Adams, Public Debts, p. 132, which have been repeated by Bastable, Public Finance, p. 653, and since then by many others. The first three and the fifth columns of the above table are taken from the annual reports of the secretary of the treasury; the other columns are obtained by simple computation.



[1] Expenditure and Taxes in the Civil War (In Millions of Dollars)

| | *Total expenditures* | *War expenditures* | *Total taxes* | *War taxes* | *Percentage of war taxes to war expenditures* |
|---|---|---|---|---|---|
| 1862 . . . | 477.8 | 427.8 | 50.9 | 1. | .02 |
| 1863 . . . | 729.9 | 679.9 | 108.2 | 58.2 | 8.5 |
| 1864 . . . | 877.4 | 827.4 | 212.5 | 162.5 | 19.6 |
| 1865 . . . | 1309. | 1259.1 | 295.6 | 145.6 | 11.5 |

[2] British War Expenditure and Revenue (In Pounds, 000 Omitted)

| | *1913–14* | *1914–15* | *1915–16* | *1916–17* |
|---|---|---|---|---|
| Taxes . . . . . . . . . . . . | 163,035 | 189,305 | 290,106 | 514,077 |
| Non-tax revenue . . . . . . . | 35,288 | 37,389 | 46,660 | 59,349 |
| Total revenue. . . . . . . . | 198,323 | 226,694 | 336,766 | 573,426 |
| Total expenditures. . . . . . | 197,493 | 560,473 | 1,559,158 | 2,198,112 |
| War expenditures . . . . . . . | . . | 362,980 | 1,362,665 | 2,000,619 |
| War taxes . . . . . . . . . . | . . | 26,270 | 127,071 | 351,042 |
| Percentage of war taxes to war expenditures . . . . . . . . | . . | 7.2 | 9.3 | 17.5 |

however, in the furnishing of an ample tax revenue quite sufficed to preserve Great Britain from the results of the American fiscal policy. The same is true when in the present war we compare Great Britain with the other belligerents, which, even in the case of France and Germany, have done no better than did the United States during the first two years of the Civil War. The significant fact for our purposes is that in the third year of war, after the imposition of heavy tax burdens, Great Britain was raising only a little over one-sixth of the war expenditures by war taxation, while the other belligerents have been doing still less. Although the proportion during the fourth year will probably be slightly higher, the British government has, up to the present, steadfastly refused to make any substantial change in the policy which results in securing by far the greater part of war expenditures from war loans.

In the United States, where, at the time of writing, the first fiscal war year is only half completed, it is impossible to present more than rough calculations. If, as is probable,[1] the total tax revenue for the year 1918 will be between $3\frac{1}{2}$ and $3\frac{3}{4}$ billions, and if we deduct the 600 or 700 millions of average tax revenue of the years preceding 1914, the total war taxes may be put roughly at a little over three billions. If, again, the total expenditures should be about nineteen and a half billions,[2] and if we deduct the estimated peace expenditures of a little over one billion,[3] the war expenditures for 1918 would be about

[1] *Cf. supra*, p. 9.

[2] The exact estimates are nowhere to be found in the annual report of the secretary of the treasury for 1917. By combining various figures, however, we get the following result:

| | |
|---|---|
| Ordinary expenditures (p. 56) | $12,316,295,223 |
| Postal expenditures (p. 73) | 333,200,000 |
| Loans to Allies (p. 17) | 7,000,000,000 |
| Total expenditures | 19,649,495,223 |

[3] By combining the figures on pp. 56 and 73 of the secretary's report we arrive at the following:

| | |
|---|---|
| Ordinary expenditures | $12,316,295,223 |
| For war purposes | 11,527,709,823 |
| Ordinary peace expenditures | 788,585,400 |
| Postal expenditures | 333,200,000 |
| Total peace expenditures | 1,121,785,400 |



eighteen and a half billions. This makes the percentage of war taxes to war expenditures for the first year of the war about 16.7, or a proportion of one-sixth, a figure which compares favorably both with Great Britain and with our own Civil War experiences. In other words, we shall raise in the first year of war about the same proportion that England raised in the third year. While this is slightly less than was originally suggested by the present writer,[1] it is ludicrously less than the amount proposed by some of the enthusiasts both in Congress and in the academic world, who spoke about raising the entire outlay by taxation. It is also significant that the secretary of the treasury, who at the outset propounded the 50–50 per cent theory—that one-half of the war expenditures should be defrayed by war taxes—should have come in his annual report in December to the conclusion that it is undesirable to levy any more taxes for the present.[2] This conclusion was evidently forced upon him by the financial depression which supervened in the last quarter of 1917 and which was popularly ascribed to the new tax law. As a matter of fact, the law was only partly responsible; and in so far as there was any responsibility at all, the cause is to be sought, as we shall see, in the defects of the law, rather than in the sum to be raised. We may conclude therefore that the new law does not err on the side of excessive taxation. But it is probable that about as much is sought to be raised by taxation as is prudent at the time. Not only the amount, but the relative proportion, of taxation is a far heavier one than has ever been previously attempted in the first year of war.

[1] In "How to Finance the War," Columbia War Papers, no. 7, pp. 14 and 21, the present writer suggested an additional tax revenue of at least one and one-half billions predicated on a total expenditure of ten billions. With war expenditures estimated at eighteen billions this would mean additional war taxes of about $2\frac{3}{4}$ billions. As we have seen, however, the additional war taxes provided by the war revenue bill amount to only $2\frac{1}{2}$ billions.

[2] "It is my earnest conviction that the general economy of the war should be permitted to readjust itself to the new revenue laws before consideration should be given to the imposition of additional tax burdens"; Report, p. 4.

We now come to the question of how this burden is distributed. The old-time classification of taxes into direct and indirect not only has lost its former usefulness but is without scientific foundation. In former times, when the mass of indirect taxes rested upon the poorer classes, the distinction corresponded roughly to the contrast between wealth and poverty, and the abolition of indirect taxes accordingly became a leading demand of social reformers. In modern times where the so-called indirect taxes have largely been removed from the necessaries of life, and imposed upon luxuries or articles of harmful consumption, the contrast has lost its point. Indirect taxes are no longer necessarily taxes upon the poor. But in the second place, the criterion of distinction has been abandoned by modern science. In direct taxes, the taxpayer is supposed to be the taxbearer; in indirect taxes, one man pays the tax and another is supposed ultimately to bear the burden. Even a superficial acquaintance, however, with the newer theories of incidence of taxation discloses the fact that many so-called direct taxes are shifted and many so-called indirect taxes may be borne by the person who originally pays the tax. Even to relegate the distinction to the mind of the legislator, as was suggested by John Stuart Mill, helps little. In the present law, for instance, no one knows whether it was the intention of the legislator that the insurance taxes or the so-called excise taxes should be paid by the producer or by the consumer. In the automobile tax both views were represented in Congress. But even assuming, what is not improbable, that most of the excise taxes are intended to rest on the consumer, what shall we say of the motorboat tax, which, as the law distinctly declares, shall be paid by the user? Is the automobile tax, then, indirect and the motorboat tax direct? And even if we declare all of the excise taxes indirect, most of them are imposed on luxuries, and thus fail to disclose the chief characteristic which has hitherto been associated with indirect taxes. The distinction, therefore, is both unclear and useless.

A classification more suited to modern conditions is that into taxes on wealth, business, exchange (in the widest sense of the term, including transportation and communication of intelligence



and power), and consumption, which last category might be subdivided into taxes on luxuries or harmful consumption and on ordinary expenditure. This fourfold classification might be further compressed into the distinction between taxes on wealth and luxury on the one hand and on the mass of consumption on the other. Business taxes would then be included in the first division and taxes on exchange in the second, while taxes on expenditure would fall into either the first or the second, according to their nature. The advantage of this classification is that it is apt to throw light on the problem of chief interest to modern democracy—the equitable distribution of tax burdens between the rich and the poor.

How do the various taxes proposed by the new revenue law fit into this fourfold classification? Since wealth is to be measured in terms of either a fund or a flow, it is obvious that in the first class are to be included taxes on property as well as on income. The present law imposes, it is true, only an income tax; but it is not at all unlikely that we may again have a tax on land or other property. The estate tax would also fall within the same group, irrespective of the question whether we regard it as a tax on capital or on the income of the recipient. In the second category, taxes on business, there ought to be included, as we shall see later, not only the excess-profits but the corporate-income tax. In the third group, taxes on exchange, would be comprised the so-called war taxes on facilities furnished by public utilities, and the stamp taxes. To the first division of the fourth group, taxes on injurious or harmful consumption, should be assigned the taxes on beverages, admissions and dues, leaving for the second sub-division customs duties and the insurance tax. This disposes of everything except the so-called excise taxes, which will probably best fit into the sub-division of taxes on luxurious consumption. But even if they should be classified under business taxes, it would make little difference, because in either case they would fall within the first of two main divisions, taxes on wealth and luxury as against taxes on general consumption.

According to this classification, the new taxes on wealth amount to about 74 per cent of the whole, the taxes on lux-

urious or harmful consumption to about 13 per cent, and the taxes on exchange and general expenditure to a little less than 13 per cent.[1] This record is almost as good as that of Great Britain, where an even larger proportion of the new war taxes has been derived from wealth or luxurious or harmful consumption. It is significant evidence of the progress that has been made in the conceptions of fiscal justice as a result of the democratic development of the last generation. The contrast of this distribution with that of the Civil War period could not be more striking.

Since, therefore, the overwhelming proportion of the new revenue is to come from taxes on income and excess profits, any adequate interpretation of the law must deal primarily with these sources.

## IV

### *The Income Tax*

The American income tax has gone through a rapid development. Imposed originally as an emergency measure during the Civil War, it disappeared in 1872. It was re-enacted in 1894 but was declared unconstitutional. A prolonged discussion led to the adoption of the Sixteenth Amendment and to the passage soon thereafter of the income-tax law in 1913.[2]

[1] DISTRIBUTION OF WAR TAXES (IN MILLIONS OF DOLLARS)

| | | | |
|---|---|---|---|
| *Wealth* | | | |
| Income | $851 | = $1,856, or 13 per cent | |
| Excess Profits | 1,000 | | |
| Estate | 5 | | |
| *Luxuries and Harmful Consumption* | | | |
| Liquors | 269.4 | = $328.1, or 13 per cent | |
| Excises | 58.7 | | |
| *Exchange* | | | |
| Transportation | 157.3 | = $269. | = $325.1, or 12.6 per cent |
| Telegraph etc. | 7. | | |
| Stamp | 29. | | |
| Postage | 76. | | |
| *Expenditure* | | | |
| Admissions | 51.1 | = $56.1 | |
| Insurance | 76. | | |

[2] For an appreciation of this law by the present writer, see POLITICAL SCIENCE QUARTERLY, volume xxix, p. 1, and The Income Tax, 2d edition, 1914, last chapter.



As was inevitable in a pioneer measure the law was not without defects both in theory and in administrative provisions. Some of these were considered by a committee on the income tax of the National Tax Association and shortly thereafter not a few of the suggested amendments were adopted.

The chief purpose of the Act of September 8, 1916, referred to above, was to secure increased revenue. Accordingly, the rate of the normal tax was increased to 2 per cent and that of the additional tax to a scale of from 1 to 13 per cent. Other important changes in the law were as follows: (1) the tax was definitely imposed upon non-resident aliens; (2) deductions were permitted for taxes levied by foreign countries; (3) allowance was made for losses actually sustained in transactions not connected with one's regular business, provided they did not exceed the profits therefrom; (4) in the case of oil and gas wells and mines a reasonable allowance was permitted for actual reduction in output or for depletion; (5) partners were allowed to deduct a proportionate share of the partnership income which would be exempted if taxed to individuals; (6) provision was made for the publication of full and adequate statistics. Among the minor changes were those requiring all individuals to make a return of dividends received, permitting the taxpayer to keep his books according to the method of accruals in lieu of that of actual receipts, and allowing the commissioner of internal revenue to grant an extension of time in making returns.

While the law of 1916 resulted in a revenue of about 360 millions, the new law is designed to increase the yield to about a billion and a quarter dollars.[1] The chief content of the law, therefore, consists in changes of rates. Advantage was also taken of the opportunity to make alterations in other provisions.

The change in rates is of a threefold character: an increase of the normal tax, a lowering of the exemption, and a rise in

[1] The estimates of the secretary of the treasury (Report, p. 71) are, in millions:

| | |
|---|---|
| Corporations | $535 |
| Individuals | 666 |
| Total | 1,201 |

the scale of progression. A supplementary normal tax of 2 per cent is imposed, bringing the total to 4 per cent. The law furthermore provides for a reform that had been widely urged by those who considered the exemption of $3000–4000 entirely too high. Accordingly, in the case of the supplementary normal tax the exemption is reduced to $1000 for unmarried and $2000 for married persons. The law also provides for an additional exemption of $200 for each child under eighteen years of age or incapable of self-support because of mental or physical defect.

In order to counterbalance this reduction, which will bring into the toils of the law millions of new taxpayers, the rates on the higher incomes are sharply increased. The original law, it will be remembered, had provided for a so-called additional tax (popularly called the surtax or, sometimes, the supertax) on all incomes over $20,000, ranging from 1 to 8 per cent on the highest amounts. The law of 1916, as we have noted, increased the graduated scale so as to run from 1 to 13 per cent. The new law reduces to $5000 the amount at which graduation begins and provides an entirely different scale, ranging from 1 to 50 per cent, for the supplementary additional tax. The result is that the maximum rate is now 67 per cent, that is, 2 per cent old normal tax, 2 per cent supplementary normal tax, 13 per cent old additional tax and 50 per cent new additional tax.[1]

This is the highwater mark thus far reached in the history of taxation. Never before, in the annals of civilization, has an attempt been made to take as much as two-thirds of a man's income by taxation. The nearest approach was during the great political struggles in medieval Italy, where, as in Florence, the income tax once reached a figure of 50 per cent.[2] In comparing our present income tax with the British, moreover, it is to be noted that our rates are much higher on the larger incomes and much smaller on the lower and moderate incomes. The American scale is an eloquent testimony to the fact not only

[1] See appendix, table V, *infra*, p. 35.

[2] *Cf.* Seligman, Progressive Taxation in Theory and Practice, 2d edition, 1908, p. 22.



that large fortunes are far more numerous here than abroad, but also that there is greater appreciation of the democratic principles of fiscal justice. For the overwhelming trend of modern opinion is clearly in the direction of applying to excessive fortunes the principle of faculty or ability to pay. It still remains to be seen, however, whether the new law, with its exceedingly high rates, will turn out to be as workable administratively and as productive fiscally as a somewhat lower scale would have been.

The second change in the law is the virtual abandonment of the stoppage-at-source method of collection. It will be remembered that the two leading types of income tax that had developed during the last generation were the so-called lump-sum method of Prussia and the scheduled method of Great Britain. The Prussian system, which rested finally upon accurate official assessment, depended for its success upon an incorruptible civil service and the fear instilled into the average taxpayer of making false returns. Great Britain had long since abandoned the scheme and had substituted the plan of imposing the responsibility of the tax upon the person who paid the income rather than upon the recipient. As between the unchecked lump-sum and the stoppage-at-source method it is clear that under American conditions the latter was preferable. At the close, however, of the discussion in 1913, an alternative plan was suggested, to which the present writer gave the name of information-at-source, designed to achieve the substantial purposes of the collection-at-source method without its discomforts and complications. This alteration, which almost succeeded in 1913, and again in 1916, and which was warmly espoused by the income-tax committee of the National Tax Association, has now been finally adopted in essence. The law makes the tax collectible from the recipient of the income, but imposes upon the payers of income the obligation to give full information of the amount and conditions of payment. Information is required from corporations as to dividend payments; from brokers as to details of transactions; and, in general, from all persons making payment to any other person of any "fixed or determinable gains, profits and income over $800." Only two

exceptions are permitted. Withholding at the source is retained for the original normal tax in the case of income accruing to non-resident aliens and of interest on tax-free bonds. The latter exception was inserted as a concession to bondholders who, relying upon the promise of the corporations to assume the tax, had paid so much more for the bonds. It is to be regretted, however, that the law fails to include the provision, found in the British statute, which prohibits for the future the inclusion of such tax-free covenants in corporate bonds.

The substitution of information-at-source in all probability marks an advance in the law, although it still remains to be seen whether the new system will prove more effective or less cumbrous than the old. In any event, however, the chief objection to the uncontrolled lump-sum method, employed in our earlier income-tax laws, has been removed.

On the fundamental question of what constitutes income the new law does not take any fresh stand. This still remains a difficulty which, however, not only is shared by many other income-tax laws but is traceable to an inadequate analysis. The distinction between capital and income has received far less scientific attention than it deserves. It may be said that there are at least three different conceptions of income found in economic literature: the one emphasizes the idea of regularity or recurrence; the second accentuates the idea of product or return from an enduring source; the third, or net-profit theory, lays stress on the surplus of what comes in over what goes out. It is impossible here to discuss the widely divergent practical consequences of these theories. It may be said, however, that until economists have decided which of the three is correct, the interpretation of the law is bound to create endless trouble. Some of the chief difficulties of the interpretation are still associated with the question of stock dividends and depreciation in the market value of securities.

An important change in the deductions permitted in the computation of taxable income is found in the treatment accorded to gifts for religious, charitable, scientific or educational purposes. When the bill was in committee, fear was expressed lest the high rates should check the flow of philanthropic gifts. In



order partly at least to obviate a consequence which would be deplorable in a country where charity is overwhelmingly of a private character, it is provided that there may be deducted, in computing net income, all such gifts, provided they do not exceed 15 per cent of the taxable income. This interesting departure is in line with the American policy of tax exemption for educational and philanthropic institutions. It is to be regretted, however, that in the estate tax a similar provision has been omitted, probably by inadvertence.

Two other important changes were made in the list of deductions. In the original act a deduction was permitted for interest on debts. It was pointed out during the discussion that, inasmuch as the first issue of Liberty bonds was tax exempt, it would be profitable for individuals to finance their bond purchases by borrowing, for they would save the tax not only on the bond interest received but on the loan interest paid. It was to obviate this invitation to inflation and fiscal injustice that the law excepted from the permissible deduction interest on debt incurred for the purchase of tax-free government bonds.

The other point has reference to the deduction for taxes. It is plain that if all taxes continue to be deducted, the payment of a large income tax in any one year will operate as a substantial and progressive reduction of the tax in following years. It is therefore provided that the permission to deduct taxes shall not apply to income and excess-profits taxes. In any one year, however, the net income may be credited with the excess-profits tax assessed in the same year.

Finally, the exemption heretofore accorded to the interest on government bonds is limited to the particular exemptions allowed in the acts authorizing the bond issues. The new four per cent bonds carry with them, as is well known, an exemption from the normal income tax only.

Up to this point we have discussed the individual income tax. The law, however, provides, as before, also for a corporate income tax. In addition to the existing normal tax of 2 per cent, a supplementary tax of 4 per cent is imposed upon the income of every corporation, joint stock company or association, or insurance company, but not including partnerships. The result

is that corporations will hereafter pay a tax of 6 per cent on their income. In computing the tax, however, all dividends received by one corporation from another taxable corporation are deductible—an important concession to holding companies but a concession limited to the supplementary tax. The limitations on the deduction for interest and taxes referred to above in the case of individuals are applicable also to corporations, as is the provision permitting the crediting to income of the excess-profits tax levied in the same year.

Corporations, however, are subject to a further tax of 10 per cent on the amount of profits remaining undistributed six months after the end of the year. Income actually invested in business or in federal bonds is exempted from this additional tax; but if it transpires that profits retained for employment in the business are not so employed or are not reasonably required therein, they shall be subject to a tax of 15 per cent. It may be conjectured that these provisions will lead to a speedy distribution of all corporate profits that should properly go to the stockholders.

Finally, attention may be called to a provision permitting the payment of the income tax, both corporate and individual, in instalments of 25 per cent at intervals of one, two and four months after the close of the taxable year, the final instalment to be payable by June 15, as before.

In any fair estimate of the present law five defects may be noted, some of them survivals, some of them additions.

The first weakness is the failure to introduce differentiation between earned and unearned income. An attempt was made to persuade Congress to adopt this distinction, which, as is well known, was initiated in Great Britain almost a decade ago. The reason advanced for the refusal—the fear of further complicating the tax—is far from convincing. Simplicity gained at the expense of equity is not to be admired. The situation is in fact aggravated by the extension of the excess-profits tax to professional incomes, as a result of which, earned incomes, instead of being taxed less, will actually be taxed more than unearned incomes. This is of course a travesty of justice.



The second defect is that returns, instead of being demanded from every one, are required only from the non-exempt classes, that is, from those whose income exceeds $1000–2000 or $3000–4000 respectively.[1] This, coupled with the failure to compel a return of income from government tax-free bonds, will prevent the collection of valuable information as to the total social income and its distribution. A return, including the entire income, should be required, as is almost uniformly the case elsewhere, from every citizen.

Third, the provision as to the calculation of losses and gains is still inequitable. On any one of the three different theories of income referred to above, our present practice of counting certain gains as income and of refusing to allow for corresponding losses is not only indefensible, but sure to create gross inequalities.

In the fourth place, the treatment accorded to dividends is highly questionable. Dividends must, indeed, be reported by individuals and, although not subject to the ordinary normal tax, are liable to both the supplementary normal tax and the additional taxes. A new section, however, provides that dividends are taxable at the rates prescribed for the years in which the corporate profits are accumulated. This is unjust because the dividends ought to be considered income when received, irrespective of when the profits were earned. If the war should last several years and be attended by an increase of war taxes, it is likely that many wealthy stockholders will escape by the fact of the corporate profits having been originally earned in the period before the high taxes were imposed. Moreover, the law will probably be so complicated as not to to be easy of enforcement. For the rate of the tax will depend upon the amount of total income in any one year and the identical amount of dividend may form an entirely different proportion of that income from year to year. It will be increasingly difficult therefore to administer the provision. In the meantime, great confusion will ensue.

[1] It is estimated that the tax will require over six million separate returns as compared with 780,000 in 1917.

The final defect is that no machinery has yet been devised to check the returns from individuals engaged in business or occupations. In the case of large corporations and partnerships, as well as individual incomes from securities, the system of information-at-source, together with the observance of modern accounting rules, will in all probability ensure fair accuracy in the returns. But where neither of these safeguards is applicable, a large loophole is left open. Where the rates of taxation are as high as at present, the dangers of evasion are multiplied; and evasion means not only loss of revenue, but inequality. Much has been done elsewhere to institute checks designed to diminish this danger. While some of the statements[1] advanced in and out of Congress as to the widespread evasions in the present law are clearly exaggerated, there is still room for decided improvement in administration.

## V

### *The Excess-Profits Tax*

Although the income tax, both old and new, is designed to provide about the same revenue as the excess-profits tax[2] the latter is the novel part of the law. What is its significance?

The first point to be emphasized is that it is a business tax. The criteria that may be employed in classifying taxes are manifold. For the purpose, however, of explaining this new impost it will suffice to observe that taxes on wealth are susceptible of a threefold division. The tax may be on either property or income; on either individuals or corporations; on either persons or things. It is this last distinction which is of consequence here—the distinction which the lawyers make between taxes *in personam* and *in rem*. Among the "things" on which taxes may be imposed are land, capital and business. The excess-profits tax is one on the business, irrespective of the person who conducts it. It is like the real-estate tax in

[1] *Cf.* the publication, The United States Income Tax Steal? The Facts and the Proofs about $320,000,000 Taken Annually by the Rich from the U. S. Treasury. By Basil M. Manley.

[2] Income tax 1,201 millions; excess profits tax 1,226 millions. See Report of the Secretary of Treasury, p. 71.



New York, assessed on the land, without regard to the owner. The objection, therefore, is not valid that because the tax is imposed on profits, it constitutes double taxation, in superimposing one income tax upon another. This is the same confusion of thought which has led some writers to object to the inclusion of a corporate-income tax in a law which endeavors to reach the entire income of the individual. The corporate-income tax, like the excess-profits tax, is a tax on the business, not a tax on the individual; a tax on a thing, not on a person.

In the second place, the excess-profits tax is not a war-profits tax, if by this term we mean a tax imposed upon the additional profits resulting from the war. This constitutes its chief difference from the war-profits taxes levied in other countries.

The almost simultaneous institution of the war-profits taxes abroad is easy of comprehension. Never before in the history of the world have such gigantic sums been expended by belligerents or have such colossal gains been made by private individuals in belligerent and neutral countries alike. It was a natural feeling that no private enterprise should be permitted to make inordinate gains out of the misery of humanity, and that the community is entitled to a great part of the profits for which no individual enterprise is really responsible. The consequence was that the government everywhere put in a claim to a large share of these profits due to the war. The proportion has risen in some countries to 80 or 90 per cent, and the war profits have in general been defined as the excess of profits during the war over those during a pre-war period.

The reason which induced Congress to modify this principle was that not a few of our largest business enterprises had been making immense profits in the pre-war period, and that, inasmuch as the profits, both past and present, were scarcely being touched by the corporate-income tax, these enterprises would virtually be exempt, while their more unfortunate competitors, who had done relatively poorly during the pre-war period, would now be heavily burdened. The decision was therefore reached to levy the tax not on war profits as such, but on excess profits in general. Although the tax is called the "war

excess profits tax," the term really means the tax on excess profits levied during the war, just as the terms "war excise taxes" or "war income tax" mean the respective taxes levied during the war.

The significant fact, however, is that nothing is said about the limitation of the tax to the period of the war. In the war-profits taxes abroad the taxes cease automatically with the end of the war, for where there is no war there can be no war profits. It is entirely possible, however, for our tax to continue after the war, just as it is possible that fiscal exigencies may compel the continuance, in whole or in part, of our war income tax or of our war excises. It will be seen, therefore, that we have here, ready to hand, a potential source of the future income which will be so sorely needed hereafter, and for which European statesmen and publicists have been dimly groping.[1]

It has been thought by some that the principle is something new in taxation. Professor T. S. Adams, for instance, emphasizes the fact[2] that it is a reversion to the benefit theory of taxation and is to be considered as an extension of the special-assessment doctrine.

Both of these statements, however, involve a partial misconception. The essence of a special assessment consists of a measurable benefit accruing to an individual as a member of a definite area, from a particular service rendered, and calling for an outlay, by the government. In a tax there is never such a particular service nor a separately measurable benefit. The criterion is not benefit but faculty or ability to pay. The confusion arises from the failure to observe, as was pointed out

[1] Many French and German and not a few English experts have called attention to the fact that the ordinary sources of present revenue will prove entirely inadequate to defray even the interest on the huge war debts. Some of them have suggested either state monopolies or government participation, on a large scale, in private business. The details, however, have not been worked out as to whether the government should take its share during the business process or at its completion. In the latter case we should have a tax somewhat analogous to our new impost.

[2] "Principles of Excess-Profits Taxation," in the *Annals of the American Academy of Political and Social Science*, volume lxxv, p. 154; and more fully in "Federal Taxes upon Income and Excess Profits," in the *American Economic Review*, vol. viii, no. 1, supplement, March 1918, Papers and Proceedings of the 30th Annual Meeting of the American Economic Association.



many years ago,[1] that ability connotes not only the old-time consumption or sacrifice element but also the production or privilege element. A business tax is none the less based upon ability to pay because the predominant criterion may consist in the profits derived in part from the privileges due to the general economic or legal environment. The excess-profits tax is a tax in which, as in many others, the ability of the taxpayer is measured, in part at least, by the privileges enjoyed. It is not to be confounded with a special assessment. There is no special measurable benefit conferred by a particular service rendered, and involving an outlay, by the government.[2]

When, however, we come to consider the precise way in which this new business tax has been worked out, we find that it is open to serious criticism. In all the European laws the taxes are not on war excess profits but on excess war profits, that is, on the excess of war profits over peace profits. Since, however, our plan is to tax excessive profits in general rather than the excess over a pre-war standard, the criterion had to be lodged elsewhere than in pre-war profits. Unfortunately, the criterion of normal profits is declared to be a certain percentage of the capital employed, the pre-war period being utilized only incidentally in ascertaining this normal percentage. That is to say, in computing excess profits, the law takes the excess over a so-called deduction or normal amount, consisting of a fixed sum ($3000 for domestic corporations, or $6000 for partnerships, citizens or residents), together with an amount equal to the percentage of the invested capital represented by the average annual income during the pre-war period, provided that this percentage shall in no case be less than 7 nor more than 9 per cent of the capital. The pre-war period is held to be the period from 1911 to 1914. In case the business was not in existence in those years, the deduction is fixed at 8 per cent instead of the 7–9 per cent. And in case there was no income

[1] Seligman, Progressive Taxation in Theory and Practice, 1894, p. 191; *cf.* 2d edition, 1918, pp. 291–292. *Cf.* the various passages in Essays in Taxation, 8th edition, 1913, pp. 340, 418, 438–444.

[2] For a fuller statement of this point *cf.* the *American Economic Review*, vol. viii, no. 1, supplement, where Professor Adams' paper is considered.

or a very low income during the pre-war period, the criterion is the percentage of capital earned by a similar or representative business.

From this base line of normal profits are computed the excess profits, the tax rising progressively with the excess, being fixed at 20 per cent on the excess profits up to 15 per cent; 35 per cent on the excess from 15 to 20 per cent; 35 per cent on the excess from 20 to 25 per cent; 45 per cent on the excess from 25 to 33 per cent; and 60 per cent on the excess profits over 33 per cent.

It is obvious that the important point here lies in the computation of capital, for with one exception[1] income is defined precisely alike in the excess-profits and the income-tax laws. The greater the amount of the "invested capital" as compared with a given income, the smaller will be the percentage and the tax. What constitutes invested capital, however, is so elusive as to be virtually impossible of precise computation. Not only will there be gross inequality between businesses which enjoy the same income but which are variously capitalized, thus putting extra taxation on small and conservatively capitalized concerns; but all manner of opportunity will be afforded for evasion of the law. The effort made to define capital in the law is unavailing. Invested capital is defined as actual cash paid in, the actual cash value of tangible property, and the paid-in or earned surplus employed in the business. Patents and copyrights are included up to the par value of the stock paid therefor and the same rule is declared applicable to the goodwill, trademarks, and franchises or other intangible property, provided that if purchased before 1917 the amount is limited to 20 per cent of the capital. The inadequacy of these provisions is manifest.

It has been contended, in defense of the law, that it is on the whole immaterial whether the criterion be sought in income

[1] The deductions allowed from corporate gross income in the excess-profits tax follow the corporation excise tax law of 1909 and not the income-tax law. The difference, it will be remembered, is that in the former law deduction is permitted on bonded indebtedness to an amount not exceeding the capital; whereas in the latter, the deduction is limited to one-half the sum of the bonds and stock.



or in capital; for capital, we are told, is nothing but capitalized income.[1] In reality, however, capital is not capitalized income; capital is the capitalization not only of present income but of anticipated future income, which is a very different thing. If, as frequently happens, the anticipated future income does not materialize, there is a vital difference between a tax on capital and a tax on income. The objection to the law still remains, as before, that the choice of capital not only constitutes a clumsy attempt to reach taxable ability, but introduces a gross inequality in principle and a deplorable uncertainty in administration. While something may no doubt be done to clear up the ambiguities and to remove some crass inequities, enough will remain to deprive the measure of a claim to scientific or practical validity.

The most serious objection to the law, however, has yet to be mentioned. Even assuming that the above difficulties were removed, that the capital could be accurately estimated, and that it varied in amount proportionally with the income—even on these unlikely assumptions, the tax would still be defective.

This is due to the criterion chosen for the basis of the graduated scale. Something can be said for a graduated tax on income; something can even be said for a graduated tax on capital; but it is difficult to say anything in defense of a tax which is graduated on the varying percentage which income bears to capital. To penalize enterprise and ingenuity in a way that is not accomplished by a tax on either capital or income—this is the unique distinction of the law. For, in the first place, while it is true that excess profits are sometimes the result, in part at least, of the social environment, they are not infrequently to be ascribed to individual ability and inventive-

[1] This point is made by Professor Adams in the address cited *supra*, p. 26, "Federal Taxes upon Income and Excess Profits." This marks a decided change of mind from his earlier statement in Financial Mobilization for War, published by the Western Economic Society and the City Club of Chicago, 1917, p. 117: "To that question in this country filled with corporations whose capital accounts mean nothing, there is only one answer—avoid the capital basis, whenever by human ingenuity it is possible to do so." The roguish commentator might possibly find a reason for this change of heart in the fact that in the interval Professor Adams had accepted an official position in the treasury department.

ness. While it is entirely proper that a share of the profits should go to the community, it is not at all clear that the tax should be graduated according to the degree of inventiveness displayed. But there is a still more important consideration. Almost all large businesses have grown from humble beginnings, and it is precisely in these humble beginnings that the percentage of the profits to the capital invested is apt to be the greatest. The criterion selected, therefore, is the one best calculated to repress industry, to check enterprise in its very inception, and to confer artificial advantages on large and well-established concerns. Nothing could be devised which would more effectively run counter to the long-established policy of the American government toward the maintenance of competition.

What, then, is the alternative? If the excess-profits tax has come to stay, as is probably the case, a slight change in the criterion employed would accomplish the desired result. What is needed is that the excess-profits tax should become a progressive income tax. It is significant that this is actually done already, where the capital criterion is impossible. The law provides that in every business without any capital, or with only a nominal capital, a tax of 8 per cent should be paid on the income, in addition to the income tax. This provision has, indeed, the awkward result of making earned income pay at a higher rate than unearned income;[1] but it is none the less significant. The individual income tax is levied on a highly progressive scale, but the corporate income tax is proportional. All of the desirable ends sought to be achieved by the excess-profits tax would be reached by converting the corporate income tax into a progressive tax. Graduation would then be applicable in both cases, the only difference being that while the test of ability to pay would be sought for the individuals primarily in the sacrifice imposed, it would be found for the business primarily in the privilege enjoyed.

The objection might indeed be made that such a progressive tax is inimical to large business. This is true, however, only

[1] *Supra*, p. 22.



in the sense that a progressive income tax is inimical to large income or a progressive property tax inimical to large property. That is a characteristic inherent in the very idea of graduated taxation. The point is, however, that if we are to have a tax on excess profits at all, we must choose between a higher tax on big business and a higher tax on small business and new enterprise. From the point of view of social welfare there is little doubt as to the wise choice.

## VI

### *Conclusion*

In summing up the above discussion we see that the new law is to be credited with three noteworthy achievements. In the first place, it will yield the most colossal revenue that has ever been attempted by a single enactment. To add, at one stroke, over two and one-half billions to the public income is an unprecedented accomplishment. It is true that war taxation covers only about a sixth of the war expenditure; but it must not be forgotten that this is far more than has been done by any of the belligerents except Great Britain and that it is considerably more than even Great Britain attempted during the first two years of war. It is entirely probable, as it is highly desirable, that increased taxation should be imposed during the successive years of the war. A good beginning, however, has been made and it is fortunate that our legislators did not at this time succumb to the specious arguments of those who urged that substantially all, or even half, of the huge war expenditures should be defrayed out of taxes during the first year of war.

Second, the law is noteworthy for an adoption of democratic principles hitherto unrealized in fiscal history. To impose the great burden of taxation on wealth and luxurious consumption rather than on the expenditure of the mass of the people is to take an appreciable forward step in the direction of realizing the principle of ability to pay. The consequence of this stride in advance will doubtless be a lasting one, and we may well look forward to a perpetuation of the same principle after the war.

In the third place, the law is to be credited with the adoption of an ingenious expedient in the shape of the excess-profits tax

This, as we have pointed out, is not an excess war-profits tax, but a war excess-profits tax. That is, although imposed as a result of the war, it is a business tax on excess profits in general. This constitutes at once its distinction from the superficially similar taxes abroad and its claim to recognition as a probably permanent feature of our tax system. It is susceptible of vast increase during the war and of a continued applicability after the war. It is not at all impossible that it may even develop into the most important constituent of our revenue system.

As against these undoubted accomplishments are to be set three weaknesses. The first is the failure adequately to utilize other fiscal possibilities such as larger and additional stamp taxes, notably on checks and small receipts, as well as taxes on quasi-luxuries. For the latter would at the same time serve to promote the desirable policy of restoring the favorable balance between social production and social consumption, so sorely needed in the war.

The second weakness is the failure to introduce the long awaited reforms in the administrative provisions of the income tax. Not a little, it is true, has been accomplished; but the enormous scale on which the tax is now levied accentuates the defects of those still existing omissions and commissions which were relatively innocuous under the preceding lower scale.

The third and most important drawback is the unfortunate principle adopted in the elaboration of the excess-profits tax. It is a principle which will return to plague the inventors. The law will in all probability be found to be almost unworkable, and even if this should not be the case, its technical success will be purchased at the cost of gross inequality and of unfavorable effects on the true elements of economic prosperity.

Balancing the strong against the weak points of the law we may conclude that while the former represent lasting advantages, the latter are susceptible of amelioration by comparatively simple changes. Taking it all in all, therefore, the war revenue act is to be welcomed as a notable achievement which will long be remembered in the annals of democratic progress.

Edwin R. A. Seligman.

Columbia University.



## APPENDIX

### TABLE I

TAXES ON SPIRITS, BEVERAGES AND TOBACCO

| | | Old rate | Act of 1914 | Act of 1916 | Act of 1917 |
|---|---|---|---|---|---|
| Distilled spirits | | | | | |
| For beverages | per gal. | $1.10 | $1.10 | $1.10 | $3.20 |
| For non-beverages | per gal. | | | | 2.20 |
| Imitation sparkling wine | per pint | .10 | .10 | . . | . . |
| Rectified (supplementary) | per gal. | . | . . | . . | .15 |
| Grape brandy | per gal. | .03 | .55 | .10 | .20–30 |
| Still wines | | | | | |
| 14 per cent or less alcohol | per gal. | . . | .08 | .04 | .08 |
| 14–21 per cent alcohol | per gal. | . . | | .10 | .20 |
| 21–24 per cent alcohol | per gal. | . . | | .25 | .50 |
| Over 24 per cent alcohol | per gal. | . . | | 1.10 | 3.20 |
| Sparkling wines | per ½ pint | . . | .03 | .03 | .06 |
| Artificially carbonated waters | per ½ pint | . . | .015 | .015 | .03 |
| Liquors, cordials etc. | per ½ pint | . . | .015 | .015 | .03 |
| Sirups and extracts | | . . | . . | . . | .05–.20 |
| Soft drinks and mineral waters | per gal. | . . | . . | . . | .01 |
| Carbonic acid gas | per pound | . . | . . | . . | .05 |
| Fermented liquors | per barrel | 1.00 | 1.50 | 1.50 | 3.00 |
| Tobacco and snuff | per pound | .08 | .08 | .08 | .13 |
| Cigars | | | | | |
| Weighing more than 3 pounds per 1000 | per 1000 | 3.00 | 3.00 | 3.00 | . . |
| To retail for less than 4 cents each | per 1000 | . . | . . | . . | 3.00 |
| To retail for 4–7 cents | per 1000 | . . | . . | . . | 4.00 |
| To retail for 7–15 cents | per 1000 | . . | . . | . . | 6.00 |
| To retail for 15–20 cents | per 1000 | . . | . | . . | 8.00 |
| To retail for over 20 cents | per 1000 | . . | . . | . . | 10.00 |
| Weighing not more than 3 pounds per 1000 | per 1000 | .75 | .75 | .75 | 1.00 |
| Cigarettes | | | | | |
| Weighing more than 3 pounds per thousand | per 1000 | 1.25 | 1.15 | 1.25 | 2.05 |
| Weighing not more than 3 pounds per 1000 | per 1000 | 3.60 | 3.60 | 3.60 | 4.80 |
| Cigarette paper or tubes | per pack | . . | . . | . . | .005–.02 |

## TABLE II

EXCISES AND MISCELLANEOUS TAXES[1]

| | | OLD RATE | ACT OF 1917 | EXISTING RATE |
|---|---|---|---|---|
| Colored oleomargarine | per pound | 10 cents | . . | 10 cents |
| Non-colored oleomargarine | per pound | ¼ cent | . . | ¼ cent |
| Adulterated butter | per pound | 10 cents | . . | 10 cents |
| Process butter | per pound | ¼ cent | . . | ¾ cent |
| Filled cheese | per pound | 1 cent | . . | 1 cent |
| Mixed flour | per barrel | 4 cents | . . | 4 cents |
| Opium | per pound | $300 | . . | $300 |
| Phosphorus matches | per 100 | 2 cents | . . | 2 cents |
| Bank circulation | per month | ½ of 1 per cent | . . | ½ of 1 percent |
| State bank notes | . . | 10 per cent | . . | 10 per cent |
| Automobiles and motorcycles | . . | . . | 3 per cent | 3 per cent |
| Musical instruments | . . | . . | 3 per cent | 3 per cent |
| Moving picture films | per foot | . . | ¼–½ cent | ¼–½ cent |
| Jewelry | . . | . . | 3 per cent | 3 per cent |
| Sporting goods and games | . . | . . | 3 per cent | 3 per cent |
| Patent medicines | . . | . . | 2 per cent | 2 per cent |
| Cameras | . . | . . | 3 per cent | 3 per cent |
| Boats and yachts | per foot | . . | 50¢–$2 | 50¢–$2 |
| Admissions | per 10 cents | . . | 1 cent | 1 cent |
| Dues | over $12 " | . . | 10 per cent | 10 per cent |
| Munitions manufacturers | on net profits | 12 per cent[2] | 10 per cent | . . |

[1] For other taxes now called excises or taxes on facilities, see table iv, STAMP TAXES.

[2] Act of 1916.



## TABLE III

SPECIAL TAXES

| | OLD RATE | ACT OF 1914 | ACT OF 1916 | EXISTING RATE |
|---|---|---|---|---|
| Rectifiers | $100–200 | . . | . . | $100–200 |
| Liquor dealers | 25–100 | . . | . . | 25–100 |
| Dealers in malt liquors | 20–50 | . . | . . | 20–50 |
| Manufacturers of stills | 50, +20 per still | . . | . . | 50, +20 per still |
| Brewers | 50–100 | . . | . . | 50–100 |
| Dealers and manufacturers of | | | | |
| Filled cheese | 12-250-400 | . . | . . | 12-250-400 |
| Adulterated butter and colored oleomargarine | 48-480-600 | . . | . . | 48-480-600 |
| Non-artificially colored oleomargarine | 6-200-600 | . . | . . | 6-200-600 |
| Manufacturers of process butter | 50 | . . | . . | 50 |
| Manufacturers and packers of mixed flour | 12 | . . | . . | 12 |
| Manufacturers or distributors of opium | 1 | . . | . . | 1 |
| Manufacturers of tobacco | | | | |
| Sales not over 100,000 pounds | . . | $6 | . . | . . |
| to sales over 1 million pounds | . . | 2,496 | . . | . . |
| Sales not over 200,000 pounds | . . | . . | $3–12 | $3–12 |
| Sales over 200,000 pounds | . . | . . | 8¢ per 1000 lbs. | 8¢ per 1000 lbs. |
| Manufacturers of cigars | | | | |
| Sales not over[1] 100,000 cigars | . . | 3 | . . | . . |
| to sales over 40 million pounds | . . | 2,496 | . . | . . |
| Sales not over 400,000 cigars | . . | . . | $2–12 | $2–12 |
| Sales over 400,000 cigars | . . | . . | 5¢ per 1000 | 5¢ per 1000 |
| Manufacturers of cigarettes | | | | |
| Sales not over 1 million cigarettes | . . | 12 } | 3¢ per 10,000 | 3¢ per 10,000 |
| To sales over 100 million " | . . | 2,496 } | | |
| Dealers in leaf tobacco | . . | 6–24 | . . | . . |
| Dealers in tobacco, sales over $200 | . . | 4.80 | . . | . . |
| Bankers in tobacco per $1,000 capital | . . | 1 | . . | . . |
| Brokers | . . | 30 | $30 | $30 |
| Pawnbrokers | . . | 50 | 50 | 50 |
| Commercial brokers | . . | 20 | . . | . . |
| Ship brokers | . . | . . | 20 | 10 |
| Custom house brokers | . . | 10 | 10 | 10 |
| Commission merchants | . . | 20 | . . | . . |
| Corporations per $1,000 capital | . . | . . | 50¢ | 50¢ |
| Proprietors of | | | | |
| Theaters, museums and concert halls | . . | $12.50–100 | $12.50–100 | $12.50–100 |
| Circuses | . . | 100 | 100 | 100 |
| Other exhibitions | . . | 10 | 10 | 10 |
| Bowling alleys and billiard rooms per alley or table | . . | 5 | 5 | 5 |

## TABLE IV

### STAMP TAXES

| | | OLD RATE | ACT OF 1914 | ACT OF 1917 |
|---|---|---|---|---|
| Bond and stock issues . . . . | per $100 | . . | 5¢ | 5¢ |
| Sales of stock . . . . . . . . | per $100 | . . | 2¢ | 2¢ |
| Sales on produce exchanges . | per $100 | . . | 1¢ | 2¢ |
| Promissory notes . . . . . . | . . . | . . | 2¢ | 2¢ |
| Bills of lading . . . . . . . | . . . | . . | 1¢ | . . |
| Bonds (except legal) . . . . | . . . | . . | 50¢ | . . |
| Indemnity and surety bonds . | . . . | . . | . . | 50¢ |
| Certificates of profit . . . . | per $100 | . . | 2¢ | . . |
| Certificates of damage. . . . | . . . | . . | 25¢ | . . |
| Other certificates. . . . . . | . . . | . . | 10¢ | . . |
| Brokers' notes. . . . . . . . | . . . | . . | 10¢ | . . |
| Conveyances . . . . . . . | per $500 | . . | 50¢ | 50¢ |
| Custom-house entries . . . . . | . . . | . . | 25¢–$1 | 25¢–$1 |
| Powers of attorney . . . . . | . . . | . . | 10¢–25¢ | 25¢ |
| Protests. . . . . . . . . . | . . . | . . | 25¢ | . . |
| Cotton futures . . . . . . . | per pound | . . | 2¢[1] | 2¢[5] |
| Proxies . . . . . . . . . . | . . . | . . | . . | 10¢ |
| Passage tickets. . . . . . . | . . . | . . | $1–5 | $1–5 |
| Playing cards . . . . . . . | per pack | 2¢ | . . | 5¢[6] |
| Parcels-post packages. . . . | per 25¢ | . . | . . | 1¢ |
| Freight. . . . . . . . . . | . . . | . . | . . | 3%[2] |
| Express packages . . . . . . | per 20¢ | . . | . . | 1¢[2] |
| Passenger fares . . . . . . | . . . | . . | . . | 8%[2] |
| Pullman tickets . . . . . . | . . . | . . | 1¢ | 10% |
| Pipe-line transportation . . . | . . . | . . | . . | 5%[2] |
| Telegraph and telephone (over 15 cents) . . . . . . . . | . . . | . . | 1¢ | 5¢[3] |
| Insurance | | | | |
| Fire, marine and casualty . | per $1 of premium | . . | ½¢ | 1¢[3] |
| Life . . . . . . . . . . . | per $100 of policy | . . | . . | 8¢[2] |
| Perfumery and cosmetics | | | | |
| Price 5–25 cents. . . . . | per package | . . | ⅛–⅝¢ | 2%[4] |
| Over 25 cents . . . . . . | per package | . . | ⅝¢ per 25¢ | |
| Chewing gum . . . . . . | per $1.00 | . . | 4¢ | 2% |

[1] Imposed by the Cotton Futures Act of Aug. 18, 1914.

[2] Not called stamp taxes, but taxes on facilities etc.

[3] No longer called stamp taxes, but taxes on facilities etc.

[4] No longer called stamp taxes, but excise taxes.

[5] No change in the act of 1917.

[6] Making total existing rate 7 cents per pack.



## TABLE V

### INCOME TAX

| OVER | | ACT OF 1913 SURTAX PER CENT | ACT OF 1913 TOTAL RATE PER CENT | ACT OF 1916 SURTAX PER CENT | ACT OF 1916 TOTAL RATE PER CENT | ACT OF 1917 ADDITIONAL SURTAX PER CENT | ACT OF 1917 TOTAL SURTAX PER CENT | ACT OF 1917 TOTAL RATE PER CENT |
|---|---|---|---|---|---|---|---|---|
| $5,000 to | $7,500 | . . | 1 | . . | 2 | 1 | 1 | 5 |
| 7,500 to | 10,000 | . . | 1 | . . | 2 | 2 | 2 | 6 |
| 10,000 to | 12,500 | . . | 1 | . . | 2 | 3 | 3 | 7 |
| 12,500 to | 15,000 | . . | 1 | . . | 2 | 4 | 4 | 8 |
| 15,000 to | 20,000 | . . | 1 | . . | 2 | 5 | 5 | 9 |
| 20,000 to | 50,000 | 1 | 2 | . . | 2 | . . | . . | . . |
| 20,000 to | 40,000 | . . | . . | 1 | 3 | 7 | 8 | 12 |
| 40,000 to | 60,000 | . . | . . | 2 | 4 | 10 | 12 | 16 |
| 50,000 to | 75,000 | 2 | 3 | . . | . . | . . | . . | . . |
| 60,000 to | 80,000 | . . | . . | 3 | 5 | 14 | 17 | 21 |
| 75,000 to | 100,000 | 3 | 4 | . . | . . | . . | . . | . . |
| 80,000 to | 100,000 | . . | . . | 4 | 6 | 18 | 22 | 26 |
| 100,000 to | 150,000 | . . | . . | 5 | 7 | 22 | 27 | 31 |
| 100,000 to | 250,000 | 4 | 5 | . . | . . | . . | . . | . . |
| 150,000 to | 200,000 | . . | . . | 6 | 8 | 25 | 31 | 35 |
| 200,000 to | 250,000 | . . | . . | 7 | 9 | 30 | 37 | 41 |
| 250,000 to | 300,000 | . . | . . | 8 | 10 | 34 | 42 | 46 |
| 250,000 to | 500,000 | 5 | 6 | . . | . . | . . | . . | . . |
| 300,000 to | 500,000 | . . | . . | 9 | 11 | 37 | 46 | 50 |
| 500,000 to | 750,000 | . . | . . | . . | . . | 40 | 50 | 54 |
| 500,000 to | 1,000,000 | . . | . . | 10 | 12 | . . | . . | . . |
| 500,000. . . . . . | | 6 | 7 | . . | . . | . . | . . | . . |
| 750,000 to | 1,000,000 | . . | . . | . . | . . | 45 | 55 | 59 |
| 1,000,000 to | 1,500,000 | . . | . . | 11 | 13 | . . | 61 | 65 |
| 1,000,000. . . . . . | | . . | . . | . . | . . | 50 | . . | . . |
| 1,500,000 to | 2,000,000 | . . | . . | 12 | 14 | . . | 62 | 66 |
| 2,000,000. . . . . . | | . . | . . | 13 | 15 | . . | 63 | 67 |

# THE ACADEMY OF POLITICAL SCIENCE

## IN THE CITY OF NEW YORK

The Academy of Political Science is affiliated with Columbia University and is composed of men and women interested in political, economic and social questions. The **annual dues** are five dollars. Members receive the Political Science Quarterly and the Proceedings of the Academy and are entitled to free admission to all meetings, lectures and receptions under the auspices of the Academy. Subscribers to the Quarterly are enrolled as subscribing members of the Academy.

**Communications** regarding the Academy should be addressed to **The Secretary of the Academy of Political Science,** Columbia University.

# THE POLITICAL SCIENCE QUARTERLY

*Managing Editor*
HENRY RAYMOND MUSSEY

The Quarterly follows the most important movements of foreign politics but devotes chief attention to questions of present interest in the United States. On such questions its attitude is nonpartisan. Every article is signed; and every article, including those of the editors, expresses simply the personal view of the writer. Each issue contains careful **book reviews** by specialists, and in March, June and December numerous recent publications are characterized in brief **book notes.** In September is printed a Supplement, consisting of a valuable **record of political events** throughout the world.

**Communications** in reference to articles, book reviews and exchanges should be addressed to the **Political Science Quarterly,** Columbia University, New York. Intending contributors are requested to retain copies of articles submitted, as the editors disclaim responsibility for the safety of manuscripts. If accompanied by stamps, articles not found available will be returned.

**Subscriptions** should be forwarded and all business communications addressed to **The Academy of Political Science,** Columbia University, New York.

---

**Yearly subscription, including Supplement, five dollars; single number, not including Supplement, one dollar. Supplement consisting of Record of Political Events, one dollar. Back numbers and bound volumes can be obtained from The Academy of Political Science, Columbia University, New York.**

END OF
TITLE